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BUSINESS

As prices soar, Fed aims to make up for lost time

The belief that inflation would not persist has proved to be a mistake

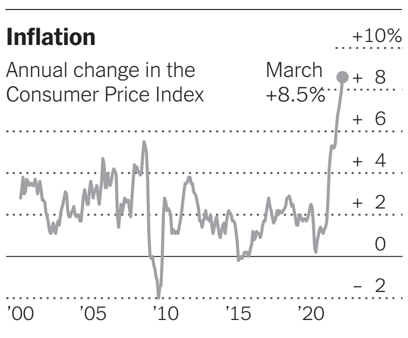
BY JEANNA SMIALEK

Some Federal Reserve officials have begun to acknowledge that they were too slow to respond to rapid inflation last year, a delay that is forcing them to constrain the economy more abruptly now — and one that could hold lessons for the policy path ahead.

Inflation began to accelerate last spring, but Fed policymakers and most private-sector forecasters initially thought price gains would quickly fade. It became clear in early fall that fast inflation was proving to be more lasting — but the Fed pivoted toward rapidly removing policy support only in late November and did not raise rates until March.

Several current and former Fed officials have suggested in recent days that, in hindsight, the central bank should have reacted more quickly last fall, but that both profound uncertainty about the future and the Fed's approach to setting policy slowed it down.

Officials had spent years dealing with tepid inflation, which made some hesitant to believe that rapidly rising prices would last. Even as they became more concerned, it took the Fed's large group of policymakers time to come to an agreement on how to respond. Another complicating factor was that the Fed had made clear promises to markets about how it would remove support for the economy, which made adjusting quickly more difficult.



"It was a complicated situation with little precedent — people make mistakes," Randal K. Quarles, who was the Fed's vice chair for supervision in 2021, said at a conference last week.

Mr. Quarles, who left the Fed at the end of the year, argued that it should have begun to pull back support aggressively after September. He added, however, that the rate increases that central bankers were now making could still fix the situation.

Even so, the delay could come with consequences. By the time the Fed completely stopped buying bonds and began raising rates in March, prices were rising 8.5 percent from a year earlier, the fastest rate since 1981. Consumer price increases were expected to remain rapid when fresh data was released Wednesday.

And as high prices have lingered, inflation expectations have been creeping up, threatening to change household and business behavior in ways that perpetuate the problem.

Because inflation is eating away at paychecks and making it more difficult for families to afford groceries and cars, it has emerged as a major political issue for President Biden, whose approval ratings have fallen over concerns about his handling of the economy. During remarks at the White House on Tuesday, Mr. Biden called inflation his "top domestic priority" and said his administration was taking steps to contain it. He also sought to push back on Republicans, who have spent months blaming him for stoking inflation, saying their policy ideas were "extreme" and would hurt working families.

"I want every American to know that I'm taking inflation very seriously," Mr. Biden said, noting that the Fed has the "primary role" in trying to tame price increases.

The Fed is now raising rates quickly to wrestle the situation back under control. Officials lifted borrowing costs half a percentage point this month, their biggest increase since 2000, while broadcasting that two more large adjustments could be coming. They are also going to start shrinking their $9 trillion balance sheet of bond holdings next month.

If the Fed continues to rapidly adjust policy this year as it tries to catch up, policymakers risk slamming the brakes on a speeding economy. Such hard stops can hurt, pushing up unemployment and possibly tipping off a recession.

Still, several Fed officials pointed out that it was easier to say what the Fed should have done in 2021 after the fact — that in the moment, it was difficult to know price increases would last. Inflation initially came mainly from a few big products that were in short supply amid supply chain snarls, like semiconductors and cars. Only later in the year did it become obvious that price pressures were broadening to food, rent and other areas.

"I try to give some grace, and say: In a very uncertain time, with an unprecedented setting, with no real models to guide us, people are going to do the best they can," Raphael Bostic, the president of the Federal Reserve Bank of Atlanta, said in an interview Monday. Mr. Bostic was an early voice suggesting that the Fed should stop buying bonds and think about raising interest rates.

Officials have said it was the acceleration in inflation data in September, followed by rising employment costs, that convinced them that price gains might last and that the central bank needed to act decisively. The Fed chair, Jerome H. Powell, pivoted on policy in late November as those data points added up.

While Mr. Quarles argued that the Fed should have responded as the September data came in, he suggested that there had been a complicating factor: Mr. Powell was waiting to see if he would be reappointed by the Biden administration, which did not announce its decision to renominate him until mid-November.

Mr. Quarles, on a "Banking With Interest" podcast episode last week, said reacting to the data was "hard to do until there was clarity as to what the leadership going forward of the Fed was going to be."

Plus, the Fed had promised to withdraw policy in a certain way, which prevented a rapid reorientation once officials began to fret that inflation might last. Policymakers had pledged to keep interest rates at rock bottom and continue to buy huge sums of bonds until the job market had healed substantially. They had also clearly laid out how they would remove support when the time came: Bond purchases would slow first, then stop, and only then would rates rise.

The Fed seems to be learning lessons from its 2021 experience.

Policymakers are avoiding giving clear guidance about what will come next for policy: Officials have said they want to quickly get rates up to the point that they start to weigh on the economy, then go from there.

While Mr. Powell said the Fed was thinking about half-point increases at its next two meetings, he gave no clear guidance about what would follow.

"It's a very difficult environment to try to give forward guidance, 60, 90 days in advance — there are just so many things that can happen in the economy and around the world," Mr. Powell said at a news conference last week. "So we're leaving ourselves room to look at the data and make a decision as we get there."

ERIKA P. RODRIGUEZ FOR THE NEW YORK TIMES

"If the system failed me at any moment, my father would pass," said Juan Molina Reyes, right. His father Luis, center, suffered a stroke and requires an oxygen concentrator.

Puerto Rico's elusive energy solution

The road to solar power remains a long one, despite its obvious advantages

BY CORAL MURPHY MARCOS AND ERIKA P. RODRIGUEZ

As Puerto Rico reeled from its worst power failure in months, one that left virtually all of the island's 1.5 million customers without electricity for days, the town of Adjuntas was an oasis.

On a Thursday morning in early April, with school closed, children filled seats in an air-conditioned cinema at a community center, a pizzeria prepped its kitchen for the lunch rush, and the local barbershop welcomed customers looking for a quick trim.

The contrast shows why Adjuntas, a community of about 18,000 in central Puerto Rico's densely forested mountains, has become a showcase for the way solar power could address one of the island's most vexing problems — an energy grid that has struggled to recover since Hurricane María practically wiped it out in 2017.

Thanks largely to the work of Casa Pueblo, a nonprofit organization focused on conservation, about 400 homes and businesses in Adjuntas have solar power, including more than a dozen shops that are connected to a small network powered by the sun. With backup batteries, the systems can operate even in a blackout, keeping businesses open and turning the organization's headquarters into a refuge for people who use medical devices that need to be powered.

"When you have energy security, you're taking the weight off the shoulders of the employees, as well as the families that come to the business," said Ángel Irizarry Feliciano, owner of Lucy's Pizza, which kept operating during the power failure. "It was a relief we could continue providing a service to our people without interruptions or having to reduce our hours."

But the situation in Adjuntas also highlights how far the rest of Puerto Rico has to go on renewable energy, despite all the seemingly obvious reasons for it: the island's long and sunny days; its need to import all other fuel, which makes electricity generation costly; and, of course, its constantly failing power grid.

Even though the number of solar installations has climbed in recent years, solar power accounts for just 2.5 percent of Puerto Rico's total energy production, government data shows. The rest comes from plants fueled by imported natural gas, coal and petroleum, with another sliver from wind power.

Many Puerto Ricans can't afford to spend the $27,000 a typical solar-power system might cost, and the government — which emerged from an unprecedented bankruptcy in March — began to set concrete renewable energy targets only in 2019. Some who can afford to add solar panels to their homes have been deterred by the chaotic state of Puerto Rico's finances, in particular by a proposal to levy a charge on solar customers to help shore up the public utility.

Casa Pueblo's installations are paid for with money from foundations, both in Puerto Rico and abroad, and from sales of coffee grown in Adjuntas. Since Hurricane María, the organization has expanded its push for solar-power adoption to communities on other parts of the island.

"We need public policy to create a business model that focuses on helping you generate your own power, not just one that provides power," said Arturo Massol Deyá, the associate director of Casa Pueblo. "The people are tired of constant power outages and their appliances' getting ruined."

PHOTOGRAPHS BY ERIKA P. RODRIGUEZ

Above, Lucy's Pizza is among the businesses in Adjuntas that can run on solar power. Left, Casa Pueblo installed solar panels on Mr. Molina Reyes's house to keep the oxygen on if the grid fails.

After the most recent failure, which began on April 6 after a fire at a power plant in the town of Guayanilla in the island's southwest, power wasn't fully restored for four days. The islandwide shutdown set off a cascade of problems: Water was also shut off to many, hospitals had to turn to backup generators, and schools and businesses closed.

Some who can afford it have been deterred by a proposal to levy a charge on solar customers.

The incident touched off protests and calls for the government to cancel its contract with Luma Energy, the private power company that took over the utility last June with promises to restore the grid. The governor of Puerto Rico, Pedro Pierluisi Urrutia, rejected the idea. But the constant power interruptions, along with monthly electric bills that have risen 46 percent in the past year, have increased frustration with the utility, which is run by a Canadian-American company under a 15-year contract signed last year.

"While some politicians choose to ignore the state of the power grid that Luma inherited and allocate blame without facts, we will continue to focus on the energy future of Puerto Rico," Luma said in a statement to The New York Times.

Puerto Rico has ambitions to do more with renewable energy. In 2019, the government passed a clean-energy law requiring that 100 percent of the island's electricity come from renewable sources by 2050 and including promises to use federal money to build renewable energy projects that reach low-income communities.

The board overseeing Puerto Rico's finances approved 18 renewable energy projects in March with a goal of raising clean-energy production to 23 percent of the island's total by the end of 2024. In February, the U.S. Energy Department began a two-year study of Puerto Rico's options for clean energy. And the Federal Emergency Management Agency and the Department of Housing and Urban Development have allocated $12 billion to revamp the island's energy industry.

But even as it proposed such an ambitious target for renewable energy, the oversight board raised the prospect of charging consumers who have solar panels on their homes by making them pay for the electricity they generate.

Under the proposal, which was conceived as a way to help pay $9 billion in debt owed by the Puerto Rico Electric Power Authority, new solar customers would have had to pay for every kilowatt of solar energy they generated. Because the proposal also included a plan to increase rates for conventional power, it was scrapped in March by the governor. But solar power advocates say they worry that as negotiations continue for a new agreement, the charge — which some refer to as the solar tax — could be revived.

"We need to find a way to deal with the debt," said Francisco Berríos Portela, director of the energy policy program at the Department of Economic Development and Commerce in Puerto Rico. "But it can't be by adding a tax on the generation that's produced by this type of system we're promoting."

The uncertainty about whether they will have to pay more in fees for a solar-power system on a home or business has dissuaded consumers like María Lizardi Córdova, an accountant who lives in San Juan. Ms. Lizardi Córdova can see a neighbor's solar panels from her bedroom window and knows many other people in the neighborhood who have decided to invest in solar, but she thinks it's too soon to make the transition herself.

"This isn't the right time, and it has to do with all the uncertainty over any additional cost to solar and what my expenses would be," Ms. Lizardi Córdova said. "The situation gets more complicated with the debt."

For Puerto Ricans with medical needs, like refrigeration for insulin or power for dialysis machines, power failures can be treacherous — and the benefits of a solar backup system are overwhelming.

In Adjuntas, Casa Pueblo runs a special project that provides solar panels for people with medical needs, like Juan Molina Reyes, a farmer who grows plantains, coffee and oranges.

Mr. Molina Reyes's 75-year-old father, Luis, suffered a stroke in August and needs assistance breathing. He said he ran through seven gas generators trying to keep his father's oxygen concentrator running when the power grid went down.

That changed in February, when Mr. Molina Reyes's family was given solar panels after seeking assistance from the charity. He said he felt lucky to have them.

"It was exasperating to know that if the system failed me at any moment, my father would pass," Mr. Molina Reyes said. "It was an uphill battle."